

OSCEOLA MUNICIPAL WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

June 30, 2015

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OSCEOLA MUNICIPAL WATERWORKS

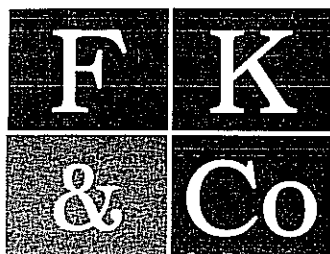
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before February 2015)		
Ryan Rychnovsky	Chair	December 31, 2016
Mackenzie O'Hair	Vice-Chair	December 31, 2018
Alisha Kale	Trustee	December 31, 2019
Susanna Contreras *	Trustee	December 31, 2019
Dave Neas	Trustee	December 31, 2018
Laura Castro **	Trustee	December 31, 2019
Brandon Patterson	Superintendent	Indefinite
Carrie Benda	Office Manager	Indefinite
(Effective February 2015)		
Dave Neas	Chair	December 31, 2018
Ryan Rychnovsky	Vice-Chair	December 31, 2016
Mackenzie O'Hair	Trustee	December 31, 2018
Alisha Kale	Trustee	December 31, 2019
Laura Castro	Trustee	December 31, 2019
Brandon Patterson	Superintendent	Indefinite
Carrie Benda	Office Manager	Indefinite

* - Resigned September, 2014.

** - Appointed October, 2014.

Osceola Municipal Waterworks



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Osceola Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Osceola Municipal Waterworks, Osceola, Iowa (Waterworks), as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the Waterworks adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

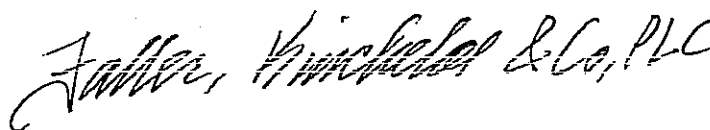
Our audit was conducted for the purpose of forming an opinion on the Waterworks financial statement. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Waterworks' Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the Waterwork's Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 7 through 9 and 21 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2016, on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC
Certified Public Accountants

Des Moines, Iowa
January 22, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Osceola Municipal Waterworks (Waterworks) provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Waterworks financial statement, which follows.

Because the Waterworks was not separately audited in prior years, much of the information is not easily comparable to prior years. Comparative data has been provided, if available.

2015 FINANCIAL HIGHLIGHTS

- The Waterworks total receipts increased 2%, or approximately \$83,000, from fiscal year 2014 to fiscal year 2015. The Waterworks raised water rates in February 2015.
- The Waterworks' total disbursements increased 3%, or approximately \$111,000, from fiscal year 2014 to fiscal year 2015.
- The Waterworks total cash basis fund balance decreased 35%, or approximately \$167,000, from June 30, 2014 to June 30, 2015.

USING THIS ANNUAL REPORT

The Waterworks has elected to present its financial statement on the cash basis of accounting. The cash basis of accounting is a basis of accounting other than U.S. generally accepted accounting principles. Basis of accounting refers to when financial events are recorded, such as timing for recognizing revenues, expenses and the related assets and liabilities. Under the Waterworks' cash basis of accounting, revenues and expenses and the related assets and liabilities are recorded when they result from cash transactions.

As a result of this cash basis of accounting, certain assets and their related revenues and liabilities and their related expenses are not recorded in this financial statement. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

The annual report is presented in a format consistent with the presentation of Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Waterworks' cash basis of accounting.

This discussion and analysis are intended to serve as an introduction to the Waterworks' financial statement. The annual report consists of a financial statement and other information as follows:

Management's Discussion and Analysis introduces the basic financial statement and provides an analytical overview of the Waterworks' financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balances presents information on the Waterworks' receipts and disbursements and whether the Waterworks' cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in our financial statement.

Other Information further explains and supports the financial statement with a comparison of the Waterworks' budget for the year and the Waterwork's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the individual Enterprise Accounts. In addition, the Schedule of Indebtedness provides details of the Waterworks' debt at June 30, 2015.

FINANCIAL ANALYSIS OF THE WATERWORKS

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

The purpose of this statement is to present the receipts received by the Waterworks and the disbursements paid by the Waterworks, both operating and non-operating. The statement also presents a fiscal snapshot of the Waterworks' cash balances at year end. Over time, readers of the financial statement are able to determine the Waterworks' financial position by analyzing the increase and decrease in cash balances.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water reconnect fees, rent for space on the water tower and miscellaneous fees. The City of Osceola pays the Waterworks contract fees to include sewer and garbage charges on the water utility bill and costs involved in preparing the billing, i.e. meter reading for sewer rates, data entry of meter reads, calculation of water utility billing and payments. A summary of cash receipts, disbursements and changes in cash balances for the years ended June 30, 2015 and June 30, 2014 is presented below:

Changes in Cash Balances		
	Year Ended June 30,	
	2015	2014
Receipts:		
Use of money and property	\$ 265,367	263,891
Charges for service	1,489,580	1,374,213
Sale of real estate	-	70,732
Insurance reimbursement	-	2,243
Donations	-	86,614
Sewer rental, garbage and miscellaneous fees collected for City	1,648,474	1,564,255
Miscellaneous	124,212	83,019
Total receipts	<u>3,527,633</u>	<u>3,444,967</u>
Disbursements:		
Business type activities	1,448,782	1,416,600
Sewer rental, garbage and miscellaneous fees remitted to City	1,642,310	1,552,214
Debt service:		
Principal paid	210,000	203,000
Interest paid	37,258	40,810
Service fees	5,322	5,830
Capital outlay	350,602	365,207
Total disbursements	<u>3,694,274</u>	<u>3,583,661</u>
Net change in cash balance	(166,641)	(138,694)
Cash balance beginning of year	<u>478,415</u>	<u>617,109</u>
Cash balance end of year	<u>\$ 311,774</u>	<u>478,415</u>
Cash Basis Fund Balance		
Restricted for:		
Bond principal and interest payments	\$ 24,427	399
Garbage fees	31,322	28,531
Total restricted cash basis fund balance	55,749	28,930
Unrestricted	<u>256,025</u>	<u>449,485</u>
Total cash basis fund balance	<u>\$ 311,774</u>	<u>478,415</u>

The Waterworks' unrestricted cash balance is available for use in the routine operation of the distribution and administrative areas of the Waterworks and for capital improvements in the distribution and treatment plant areas. The Waterworks' restricted cash balances are restricted funds for the repayment of the bond principal and interest payments and garbage charges collected for the City.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Water Works processed a budget amendment through the City of Osceola for the State Revolving Fund and chemical expenditure line items.

The Waterworks' charges for service receipts were \$192,620 less than budgeted as water consumption was more than anticipated. The Waterworks' disbursements were \$68,512 more than budgeted for the year.

DEBT ADMINISTRATION

At June 30, 2015, the Waterworks had \$1,919,000 in revenue bonds outstanding compared to \$2,129,000 last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Waterworks appointed officials considered many factors when approving the fiscal year 2016 budget, including water main repairs and replacements, upkeep of the current water facilities and fees that will be charged. The Waterworks raised water rates in February 2015 to improve its financial position.

Current economic conditions beyond the Water Board of Trustees control play a significant role in the daily operations of the distribution and treatment services. These conditions include, but are not limited to:

- The need to maintain vehicles and machinery.
- The need to comply with federal and state regulations for the treatment and distribution of water.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

CONTACTING THE WATERWORKS FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Waterworks finances and to show the Waterworks accountability for the money it receives. If you have any questions or need additional information regarding this report, please contact Osceola Waterworks, 208 West Jefferson Street, Osceola, IA 50213, Alisha Kale, Chairperson, or by telephone at (641) 342-1435.

Financial Statement

OSCEOLA MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2015

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,489,580
Miscellaneous	124,212
Total operating receipts	<u>1,613,792</u>
Operating disbursements:	
Business type activities	<u>1,448,782</u>
Total operating disbursements	<u>1,448,782</u>
Excess of operating receipts over operating disbursements	<u>165,010</u>
Non-operating receipts (disbursements):	
Interest on investments	674
Rental income	264,693
Sewer rental and garbage fees collected for City	1,648,474
Sewer rental and garbage fees remitted to City	(1,642,310)
Debt service	(252,580)
Capital outlay	(350,602)
Net non-operating receipts (disbursements)	<u>(331,651)</u>
Change in cash balance	(166,641)
Cash balance beginning of year	<u>478,415</u>
Cash balance end of year	<u><u>\$ 311,774</u></u>
Cash Basis Fund Balance	
Restricted for:	
Bond principal and interest payments	\$ 24,427
Garbage fees	31,322
Total restricted cash basis fund balance	<u>55,749</u>
Unrestricted	<u>256,025</u>
Total cash basis fund balance	<u><u>\$ 311,774</u></u>

See notes to financial statement.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Osceola Municipal Waterworks (Waterworks) is a component unit of the City of Osceola, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for bond principal and interest payments and garbage fees due to the City of Osceola are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2015, the Waterworks had the following investments:

Note 2. Cash and Pooled Investments (continued)

Investments in Mutual Funds	Carrying Amount	Fair Value
J Hancock Lifestyle Moderate A	\$ 109,538	106,485
J Hancock Lifestyle Balanced A	109,538	108,016
Total	<u>\$ 219,076</u>	<u>214,501</u>

Credit risk – The Waterworks investments in mutual funds are unrated.

Concentration of credit risk – The Waterworks place no limits on the amount that may be invested in any one issuer of mutual funds. However, the Waterworks policy requires the Waterworks to diversify its investments to eliminate the risk of loss resulting from the over concentration of assets in a specific maturity, issuer or class of securities.

Interest rate risk – The Waterworks investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Waterworks.

FASB ASC 820, Fair Value Measurements, provides a framework for measuring fair value that requires a Company to determine fair value based on the price that would be received in the principal market for the asset or liability being measured. Fair value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the company. The guidance establishes a three level fair value hierarchy that describes the inputs that are used to measure assets and liabilities:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the company has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable in the market and can be corroborated by observable markets data.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets and liabilities that reflect a company's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Following are descriptions of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2014 and June 30, 2015.

Mutual funds: are valued based on quoted market prices in the active market in which they were traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Waterworks believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The mutual funds of the Waterworks are all considered Level 1 inputs.

It does not appear that the Code of Iowa allows the Waterworks to invest in the above type of investments.

Note 3. Revenue Bonds Payable

Annual debt service requirements to maturity for the water revenue bonds payable are as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	Total
2016	\$ 216,000	33,582	249,582
2017	222,000	29,803	251,803
2018	229,000	25,918	254,918
2019	236,000	21,910	257,910
2020	243,000	17,780	260,780
2021	250,000	13,528	263,528
2022	258,000	9,153	267,153
2023	265,000	4,638	269,638
	<u>\$ 1,919,000</u>	<u>156,312</u>	<u>2,075,312</u>

Water Revenue Bonds

On May 14, 2002, the Waterworks entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$4,066,000 of water revenue bonds with interest at 3.00% per annum. Effective June 1, 2013, the interest rate was amended to 1.75% per annum. The agreement also requires the Waterworks to annually pay .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal waterworks system. The funds were drawn down by the Waterworks from the Trustee upon request to reimburse the Waterworks for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the water revenue bonds was charged by Wells Fargo Bank Iowa, N.A.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$4,066,000 in water revenue bonds issued in 2002. Proceeds from the bonds provided financing for the construction of water main replacements. The bonds are payable solely from water customer net receipts and are payable through 2023. Annual principal and interest payments on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,075,312. For the current year, principal and interest paid and total customer net receipts were \$247,258 and \$165,010, respectively.

The resolutions providing for the issuance of the water revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the Waterworks and the bond holders hold a lien on the future earnings of the funds.
- (b) The Board shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of the installment of principal next due shall be made to a water revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted accounts noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.
- (e) All users of the system, including the City, shall pay for usage.

Note 3. Revenue Bonds Payable (continued)

During fiscal year 2015, sufficient user rates were not established at a level to produce net revenues equal to at least 110% of the principal and interest on the revenue bonds as they become due. In addition, the balance in the water revenue bond and interest sinking account was deficient at times during the fiscal year ended June 30, 2015. Also, the City is not being charged for service as required.

Note 4. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

Note 4. Pension Plan (continued)

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Waterworks contributed 8.93 percent for a total rate of 14.88 percent.

The Waterworks' contributions to IPERS for the year ended June 30, 2015 were \$33,692.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Waterworks' liability for its proportionate share of the collective net pension liability totaled \$217,629. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the collective net pension liability was based on the Waterworks' share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Waterworks' proportion was 0.005377 percent, which was an increase of 0.005377 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the Waterworks collective pension expense, collective deferred outflows and collective deferred inflows totaled \$16,289, \$11,969 and \$82,998 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 4. Pension Plan (continued)

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Waterworks' proportionate share of the net pension liability	\$ 411,205	\$ 217,629	\$ 54,232

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 5. Other Postemployment Benefits

Plan Description - The City of Osceola operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. The Waterworks' employees are part of the City of Osceola's insurance policy. There are 9 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Note 5. Other Postemployment Benefits (continued)

Funding Policy – The contribution requirements of plan members are established and may be amended by the Waterworks. The Waterworks currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the Waterworks and plan members are \$557.74 for single coverage, \$1,115.47 for employee/spouse coverage, and \$1,059.70 for employee/dependent coverage. For the year ended June 30, 2015, the Waterworks contributed \$90,364 and plan members eligible for benefits contributed \$4,112 to the plan.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use of or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2015 is \$27,980. The liability has been computed based on rates of pay in effect at June 30, 2015.

Note 7. Intrafund Transfers

The detail of intrafund transfers for the year ended June 30, 2015 is as follows:

Transfer to	Transfer from	Amount
Enterprise: Sinking	Enterprise: General	\$ 276,608
Total		<u>\$ 276,608</u>

Transfers generally move resources from the account required to collect the resources to the account statutorily required to disburse the resources.

Note 8. Lease Agreements

The Waterworks is leasing antenna space on the water tower to USCOC of Greater Iowa, LLC (tenant). The initial term of the lease began in 2009, with five additional (5) year renewal options. The Waterworks received \$13,727 from this lease in fiscal year 2015. As long as this lease is in effect, after every five years, the base rent for this lease will be increased by 3% per year over the previous year's base rent. Unless the tenant decides to terminate the lease, the Waterworks has to continue to lease the antenna space to the tenant until fiscal year 2040.

The City of Osceola and the Waterworks have entered into a lease agreement with HGI-Lakeside, LLC (Casino) for certain real estate surrounding West Lake and the use of the lake in the operation of a casino. Unless the Casino terminates the lease, this lease is renewable by the Casino every five years, with the term of the lease extending through the year 2047. As part of this lease, the Waterworks is to receive \$245,000 per year from the Casino, beginning January 1, 2012, plus a 1% increase per year. During fiscal year 2015, the Casino paid \$250,966 to the Waterworks in relation to this lease. In addition, this lease requires the Casino to employ not less than 290 full-time employees.

Note 9. Contract with Southern Iowa Rural Water Association

The Waterworks and the Southern Iowa Rural Water Association (SIRWA) entered into an agreement whereas the Waterworks will sell a maximum of 470,900 gallons of water per day to SIRWA. The agreement was entered into in 1994, and is for a term of 40 years. Currently the Waterworks sells water to SIRWA at a rate of \$2.36 per thousand gallons.

Note 10. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Contingencies

The Waterworks participates in federal, state and local grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources are generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal, state and local regulations and requirements, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal, state or local audit may become a liability of the Waterworks. The effects of potential revisions or disallowances, if any, is unknown.

The Waterworks is not in compliance with its revenue bond loan agreements as documented in Note 3 above. The potential liability as a result of this noncompliance is unknown.

Note 12. Commitment

The Waterworks has an agreement with a leak detection service. The total amount owed to the leak detection service will be \$5,700 in fiscal year 2016 and \$2,850 in fiscal year 2017. These contract amounts will be paid after this service is provided.

Note 13. Subsequent Events

The Waterworks has evaluated subsequent events through January 22, 2016, which is the date that the financial statement was available to be issued.

Other Information

OSCEOLA MUNICIPAL WATERWORKS
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL (CASH BASIS)

OTHER INFORMATION

Year ended June 30, 2015

	Actual	Less Amounts not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Use of money and property	\$ 265,367	-	265,367	261,778	261,778	3,589
Charges for service	3,138,054	1,648,474	1,489,580	1,682,200	1,682,200	(192,620)
Miscellaneous	124,212	-	124,212	97,000	97,000	27,212
Total receipts	3,527,633	1,648,474	1,879,159	2,040,978	2,040,978	(161,819)
Disbursements:						
Business type activities	3,694,274	1,642,310	2,051,964	2,035,476	2,120,476	68,512
Excess (deficiency) of receipts over (under) disbursements	(166,641)	6,164	(172,805)	\$ 5,502	(79,498)	(93,307)
Cash balances beginning of year	478,415	12,041	466,374			
Cash balances end of year	\$ 311,774	18,205	293,569			

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2015

The Osceola Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year, one budget amendment increased total disbursements by \$85,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2015, disbursements did not exceed the amount budgeted.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORK'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(IN THOUSANDS)

OTHER INFORMATION

	<u>2015</u>
Waterworks' proportion of the net pension liability	0.005377%
Waterworks' proportionate share of the net pension liability	\$ 218
Waterworks' covered employee payroll	\$ 357
Waterworks' proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.06%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 2 FISCAL YEARS
(IN THOUSANDS)

OTHER INFORMATION

	2015	2014
Statutorily required contribution	\$ 34	32
Contributions in relation to the statutorily required contribution	(34)	(32)
Contribution deficiency (excess)	\$ -	-
Waterworks' covered-employee payroll	\$ 378	357
Contributions as a percentage of covered-employee payroll	8.93%	8.93%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Waterworks will present information for those years for which information is available.

OSCEOLA MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

OSCEOLA MUNICIPAL WATERWORKS

Schedule 1

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Sinking	Reserve	Casino	Total
Operating receipts:					
Charges for service:					
Sale of water and late penalty	\$1,439,571	-	-	-	1,439,571
Other charges for service	30,509	-	-	-	30,509
Collection fee from City	19,500	-	-	-	19,500
	1,489,580	-	-	-	1,489,580
Miscellaneous:					
Sales tax	57,824	-	-	-	57,824
Customer deposits	18,000	-	-	-	18,000
Miscellaneous	48,388	-	-	-	48,388
	124,212	-	-	-	124,212
Total operating receipts	1,613,792	-	-	-	1,613,792
Operating disbursements:					
Business type activities:					
Salaries	397,531	-	-	-	397,531
Payroll taxes	70,986	-	-	-	70,986
Employee insurance	90,364	-	-	-	90,364
Clothing allowance	2,797	-	-	-	2,797
Dues	703	-	-	-	703
Employee training	4,632	-	-	-	4,632
Vehicle expense	20,380	-	-	-	20,380
Utilities	86,589	-	-	-	86,589
Telephone	8,133	-	-	-	8,133
Advertising	3,026	-	-	-	3,026
Insurance	34,361	-	-	-	34,361
Reservoir contribution	9,680	-	-	-	9,680
Legal	2,380	-	-	-	2,380
Lab test and supplies	17,669	-	-	-	17,669
Sales tax	57,023	-	-	-	57,023
Miscellaneous	6,197	-	-	-	6,197
Auditing	5,675	-	-	-	5,675
Fees	6,498	-	-	-	6,498
Hydrant refunds	9,100	-	-	-	9,100
Main repair	22,867	-	-	-	22,867
Valve, fire hydrant repair	3,387	-	-	-	3,387
Customer service line, meter pit repair	16,976	-	-	-	16,976
Deposit refunds	15,572	-	-	-	15,572
Chemicals	502,800	-	-	-	502,800
Minor tools and equipment	14,080	-	-	-	14,080
Water meters	14,974	-	-	-	14,974
Office supplies	11,978	-	-	-	11,978
Postage	10,400	-	-	-	10,400
Safety equipment and supplies	2,024	-	-	-	2,024
Total operating disbursements	1,448,782	-	-	-	1,448,782

OSCEOLA MUNICIPAL WATERWORKS

Schedule I (continued)

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
ENTERPRISE FUND ACCOUNTS

As of and for the year ended June 30, 2015

	General	Sinking	Reserve	Casino	Total
Excess of operating receipts over operating disbursements	\$ 165,010	-	-	-	165,010
Non-operating receipts (disbursements):					
Interest on investments	674	-	-	-	674
Rental income	13,727	-	-	250,966	264,693
Sewer rental and garbage fees collected for City	1,648,474	-	-	-	1,648,474
Sewer rental and garbage fees remitted to City	(1,642,310)	-	-	-	(1,642,310)
Debt service:					
Principal redemption	-	(210,000)	-	-	(210,000)
Interest paid	-	(37,258)	-	-	(37,258)
Service fees	-	(5,322)	-	-	(5,322)
Capital outlay	(69,714)	-	-	(280,888)	(350,602)
Total non-operating receipts (disbursements)	(49,149)	(252,580)	-	(29,922)	(331,651)
Excess (deficiency) of receipts over (under) disbursements	115,861	(252,580)	-	(29,922)	(166,641)
Transfers in (out)	(276,608)	276,608	-	-	-
Net change in cash balances	(160,747)	24,028	-	(29,922)	(166,641)
Cash balances beginning of year	(152,767)	399	318,513	312,270	478,415
Cash balances end of year	\$ (313,514)	24,427	318,513	282,348	311,774

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

Schedule 2

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2015

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Bonds	05-14-02	1.75%	\$ 4,066,000

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
05-14-02	\$ 2,129,000	-	210,000	1,919,000	37,258	-

See accompanying independent auditor's report.

OSCEOLA MUNICIPAL WATERWORKS

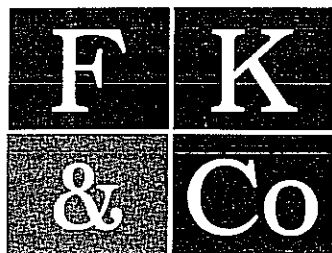
Schedule 3

BOND MATURITIES

June 30, 2015

Year Ending June 30,	Water Revenue Bonds	
	Issued May 14, 2002	
	Interest Rates	Amount
2016	1.75%	\$ 216,000
2017	1.75%	222,000
2018	1.75%	229,000
2019	1.75%	236,000
2020	1.75%	243,000
2021	1.75%	250,000
2022	1.75%	258,000
2023	1.75%	265,000
		<u>\$ 1,919,000</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & Co, PLC

Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of the
Osceola Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Osceola Municipal Waterworks, Osceola, Iowa (Waterworks), as of and for the year ended June 30, 2015, and the related Notes to Financial Statement, which collectively comprise the Waterworks financial statement, and have issued our report thereon dated January 22, 2016. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C) and (D) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

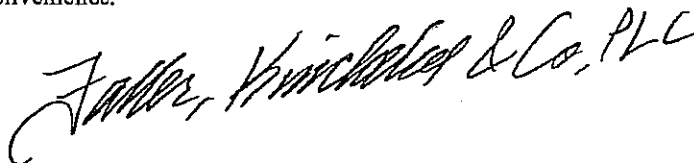
Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC
Certified Public Accountants

Des Moines, Iowa
January 22, 2016

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person. Also, some bank accounts are not reconciled by an individual who does not sign checks, handle or record cash. Mail is opened by accounting personnel with access to the accounting records. In addition, the duties for maintaining accounts receivable are not separate from those of processing collections and deposits.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Osceola Municipal Waterworks (Waterworks) should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including appointed officials.

Response – Osceola Water Works has made internal changes to spread out the segregation of duties. There are only three office employees so these duties cannot be spread out as if we were a larger company.

Osceola Water Works will continue to look into the internal control procedures to ensure we are utilizing all staff available including appointed officials for reconciling bank accounts, signing of checks and handling or receipting cash.

Conclusion – Response acknowledged.

- (B) Financial Reporting – We noted that while management is capable of preparing accurate financial statements that provide information sufficient for the Board of Trustee members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including note disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation – Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response – Due to Osceola Water Works being a small entity and recognizing we are unable to prepare financial statements and note disclosures, we will take the necessary steps to provide the most up to date financial information for the Board of Trustee members to make management decisions. In addition, Water Works management will work to obtain additional knowledge regarding financial reporting.

Conclusion – Response acknowledged.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled during the fiscal year. In addition, the Waterworks does not retain a billing register and a delinquent accounts receivable listing each month.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts each month. The Waterworks should also generate a billing register and a delinquent accounts receivable listing each month. The Waterworks Board of Trustees should review the reconciliation and monitor delinquent accounts each month.

Response – Osceola Water Works has created a process to reconcile the utility billings, collections and delinquent accounts. There were timing issues of when the reports were ran and calculated that we are currently continuing to work with our software programming provider to ensure the correct timeliness of running the reports is used to ensure the correct balances are obtained. In a separate meeting with Faller, Kincheloe & Co., PLC, a few recommended changes were suggested that will be implemented for the future balancing methods for the reconciliation process beginning December 2015 forward.

Conclusion – Response acknowledged.

- (D) Meter Deposits – The Waterworks accounting system is not keeping track of the meter deposits on hand, by customer. As a result, the Waterworks is unable to identify the individuals who have meter deposit amounts on hand at any point in time.

Recommendation – The Waterworks should implement procedures to ensure the meter deposit amounts by customer are identified. In addition, the listing of meter deposit amounts on hand, by customer, should be reconciled to the meter deposit cash total as recorded on the accounting system on a monthly basis.

Response – Osceola Water Works created a process to account for deposits made from July 1, 2013 forward. For customer deposits that were collected prior to July 1, 2013 we could not ensure accountability. Osceola Water Works set up a separate fund for the customer meter deposits and refunds from July 1, 2013 forward. The customer meter deposit refunds prior to July 1, 2013 will continue to be tracked by a separate line item. As part of the balancing process, Osceola Water Works will balance the customer deposit spreadsheet against the 602 fund to ensure we are in balance.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – The budget certified by the City of Osceola includes an amount budgeted for the Waterworks. Disbursements during the year ended June 30, 2015, did not exceed the amount budgeted for the Waterworks.
- (2) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- (4) Business Transactions – No business transactions between the Waterworks and Waterworks officials or employees were noted.
- (5) Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (6) Board of Trustee Minutes – No transactions were found that we believe should have been approved in the trustee minutes but were not.

It does not appear the Waterworks published its board minutes and related claims timely, as required. Chapter 388.4 of the Code of Iowa states that "Immediately following a regular or special meeting of a utility board, the secretary shall prepare a condensed statement of the proceedings of the board and cause the statement to be published in a newspaper of general circulation in the city. The statement must include a list of all claims allowed ...". In some instances, the board minutes and related claims were not published until approximately 30 days after the board meeting. As a result, it does not appear the Waterworks met the intent of Chapter 388.4 of the Code of Iowa.

Recommendation – The Waterworks should comply with Chapter 388.4 of the Code of Iowa and publish all minutes and related claims timely in the newspaper.

Response – Osceola Water Board of Trustees meets the first Thursday of each month and will have the minutes written, revisions made and published in the Osceola Sentinel Tribune as soon as possible to meet these requirements.

Conclusion - Response acknowledged.

- (7) Deposits and Investments – Instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Waterworks investment policy were noted.

The Waterworks has investments in mutual funds which do not appear to meet the requirements of Chapter 12B.10 of the Code of Iowa, or the Waterworks investment policy.

Recommendation – The Waterworks should implement procedures to ensure all investments meet the requirements of Chapter 21B of the Code of Iowa and the Waterworks investment policy.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Response - After the FY2014 audit, Osceola Water Works met with legal counsel in regards to the investments we currently hold with Edward Jones. It was determined that the CD's were not in compliance and actions were taken to move those to a local banking facility. The mutual funds were found to meet the requirements of the Code of Iowa as per our legal counsel.

Conclusion – Response acknowledged.

- (8) Revenue Notes and Bonds – The following instances of non-compliance with the water revenue bond requirements were noted:

- The Waterworks Water Revenue Bonds resolution requires the Waterworks “leave a balance of net revenues equal to at least 110% of the principal of and interest on all of the bonds and any other parity obligations due in such fiscal year, as they become due.”

The Waterworks fiscal year 2015 net water operating income of \$165,010 is less than 110% of the \$247,258 of water revenue bond principal and interest due during fiscal year 2015.

- The Waterworks balance in the water revenue bond and interest sinking account was deficient by over \$20,000 at times during the year ended June 30, 2015.
- The Waterworks bond resolutions require all users of the system, including the City, be charged for usage. The City is currently not being charged for water usage.

Recommendation – In the future, the Waterworks should ensure that the water revenue bond resolutions are met. The Waterworks should also consult with bond counsel to determine the disposition of this matter. In addition, the Waterworks should ensure City water usage is billed and paid by the City as required by the bond provisions.

Response – Osceola Water Works will review and implement a process to ensure we have a balance of net reserves in the fund account prior to the end of the fiscal year. Discussions will be held regarding the charge of usage for city accounts.

Conclusion – Response acknowledged.

- (9) Utility Rates - Chapter 384.84 of the Code of Iowa requires that water rates be established by resolution of the trustees, published in the same manner as an ordinance. However, the customer deposit amount, the late fee amount and the minimum bill amount charged by the Waterworks do not appear to be established by a resolution as required.

Chapter 388.6 of the Code of Iowa states that a utility may not provide use or services at a discriminatory rate, except to the City or its agencies. However, we noted that the Waterworks was providing free or reduced rate water service to some non-profits. This would appear to violate Chapter 388.6 of the Code of Iowa.

Recommendation – The Waterworks should establish all water rates by resolution, and publish them in the same manner as an ordinance, as required by the Code of Iowa.

The Waterworks should also ensure compliance with Chapter 388.6 of the Code of Iowa in relation to not providing utility use or service at a discriminatory rate.

OSCEOLA MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2015

Response – Osceola Water Works has established all water rates by resolution and published them in the Osceola Sentinel Tribune as per the Code of Iowa.

Osceola Water Works does not wish to provide water service at a discriminatory rate. After discussions with legal counsel, Osceola Water Works may not discriminate within a class and would be required to provide the same reduction to similarly situated entities. If the Water Board of Trustees wishes to continue providing the rate reduction, they will create a written policy.

Conclusion – Response acknowledged.

- (10) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Waterworks to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Waterworks did not receive an image of the back of each cancelled check for its bank account for several months during the fiscal year.

Recommendation – The Waterworks should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Response – We have implemented this recommendation beginning in November, 2014.

Conclusion – Response acknowledged.

- (11) Miscellaneous – State of Iowa sales taxes on material sales are not assessed or remitted to the State of Iowa as required.

An instance was noted where an invoice could not be located by the Waterworks.

Recommendation – The Waterworks should assess and remit all sales taxes as required by the State of Iowa. In addition, the Waterworks should ensure all invoices are retained.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.